

Lessons Learned from Competition...

Competitors will target high volume urban customers first.

- **Special Access**
- **Multiline Business**
- **Single Line Business/Residence**

Barriers to Competition differ for Switched and Special Access...

Special Access

- **Authorization to provide service**
- **Ability to collocate and interconnect**
- **Unbundled network elements available**
- **Access to poles, conduits and rights of way**

Switched Access

- **Authorization to provide service**
- **Local exchange competition authorized**
- **Compensation, Interconnection and Intrastate Collocation are available**

Regulatory Framework and Competition...

- **Existing framework reflects view that Price Cap LECs have monopolies.**
 - **Implicit and explicit subsidies in rates.**
 - **Averaged rates across area.**
- **Evolution of competition has demonstrated need for fundamental changes.**
 - **Recognized by the Commission in;**
 - **USPP Waiver Order**
 - **Second FNPRM in Price Cap Proceeding**
- **Adaptive regulatory model required as competition evolves.**
 - **Industry should know in advance how key regulatory structures will change as competition evolves.**

Public Policy Benefits of Adaptive Regulatory Model ...

- **Provides clear signals, in advance, to the market of changing regulatory framework.**
- **Provides incentives to LECs to facilitate the evolution of competition.**
- **Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.**
- **Addresses concerns of LECs and provides assurance that regulation will adapt and keep pace with competitive developments.**
- **Eliminates continuing regulatory scrutiny of waivers requested in response to competition.**

Proposed Regulatory Model ...

● Phase 1

- **Framework A - Baseline -**
 - No competitive presence or market entry.
- **Framework B - Barriers to Entry Removed, and Competitor Present -**
 - Implicit and explicit barriers removed.
 - Market is open to competitive entry.
 - Competitor is present in region
- **Framework C - Significant Competitive Presence -**
 - Barriers to entry removed.
 - Competition is present throughout major segments of LEC market.

Proposed Regulatory Model ...

- **Phase 2 - Streamlined Regulation -**
 - **Follows Framework C.**
 - **Products and areas are subject to effective competition.**
 - **A service, or group of services, in the relevant market area are removed from price caps.**
- **Phase 3 - Non-dominant Status -**
 - **Follows Streamlined Regulation.**
 - **LEC classified as non-dominant for a service, or group of services, in the relevant market area.**

Proposed Regulatory Model ...

● Criteria

- **Transition from Framework A to B -**
 - **Barriers to Entry removed in areas/jurisdictions overseeing “75%” of the LEC’s access lines, and a competitor is operational in region.**
- **Transition from Framework B to C -**
 - **Barriers to entry removed in all areas/jurisdictions.**
 - **Competitive presence in areas representing “40-50%” of the LEC’s total business access lines (or 40-50% of revenue for special access) .**
- **Transition from Framework C to Streamlined -**
 - **Demonstration of demand responsiveness of 15%.**
- **Transition from Streamlined to Non-dominant -**
 - **LEC services must be subject to streamlined regulation for 1 (or 2) year(s), and competition has not been impeded.**

Regulatory Model should Address...

- **Rate Structure**
- **Subscriber Line Charge**
- **Pricing Flexibility**
 - **Lowering Prices**
 - **Raising Prices**
- **Price Cap Structure**
 - **Baskets and bands**
 - **Productivity - X Factor**
 - **Carrier Common Line**
- **Flexibilities for introducing new services**
- **APPs, Market Trials and Volume/Term Discounts**

Components of Adaptive Regulatory Model Change as Competition Evolves...

<u>Component</u>	<u>Framework</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
Rate Structure	→	Pro-competitive Structural Changes	→
Pricing Flexibility	→	Increased Pricing Flexibility	→
Price Cap Baskets	→	Simplify / Reduce Basket Structure	→
Price Cap Productivity	→	Reduced X Factor	→

Components of Adaptive Regulation Model - Framework A

- **Rate Structure**
- **Pricing Flexibility**
- **Price Cap Baskets**
- **Productivity**
- **Present Rate Structure**
- **Streamlined Part 69 Waiver Process**
- **New Services Expedited Process;
14 days notice, with cost support**
- **More flexible Band Limits (+5%, -15%)**
- **Existing Price Cap Structure**
- **Eliminate Common Line Formula**
- **Operator Services in present
Information Category**
- **Productivity Factor: X**

Illustrative Components of Adaptive Regulation Model -

Framework B

- **Rate Structure**
 - **Zone Structure for LS, CCL, and IC**
 - **LTS recovered on market share**
 - **SL/ML structure for LS, CCL, and IC**
 - **ML CCL recovery on basis of IXC's SL PSLs**
 - **Increase EUCL**
- **Pricing Flexibility**
 - **Volume and Term pricing**
 - **Alternative Pricing Plans, Market Trials**
 - **Greater downward pricing flexibility (e.g., 50%)**
- **Price Cap Baskets**
 - **Consolidation of service categories; move to segment into Common Line, Switched, and Trunking (with IC in Switched)**
- **Productivity**
 - **Lower productivity; X - a**

Illustrative Components of Adaptive Regulation Model - Framework C

- **Rate Structure**
 - **Further segment ML structure into “small” and “large” Business**
 - **Deaverage EUCL by Zones**
 - **Establish higher SL EUCL for Zones 2 & 3**
- **Pricing Flexibility**
 - **Unlimited downward flexibility (- 100%)**
 - **Authority to respond to RFPs**
- **Price Cap Baskets**
 - **Combine Common Line and Switched**
 - **Resulting in two primary baskets; Switched and Trunking (Special)**
- **Productivity**
 - **Lower productivity; X - b**

**Procedure for Making a Competitive Showing
to Transition from Framework A to B or C**

Transition from Framework A to Framework B

Step 1. Identify removal of barriers to entry by jurisdiction

- Identify jurisdictions in which the barriers to entry have been removed. Barriers to market entry are different for special access/trunking and switched access services.¹
- The basis for this showing will consist of a demonstration that states have taken actions to remove exogenous barriers to entry, i.e., those beyond control of the LEC, as well as a demonstration that the LEC has removed endogenous barriers to entry.

Step 2. Determine the number of access lines in each jurisdiction identified in Step 1

- This information can be obtained for each state from the LEC's annual access tariff filing or from ARMIS 43-01 Reports. These reports provide Common Line Demand and consist of lines for single line business, residence lifeline, residence non-lifeline, multiline business, and Centrex CO & CTX-like services.

Step 3. Determine percentage for criteria

- Calculate the percentage of the LEC's access lines in the jurisdictions where the barriers to entry have been removed by dividing the number calculated in Step 2 by the total number of LEC lines in all jurisdictions in its region or service area.
- If the percentage is equal to or greater than 75%, then the criteria is satisfied.

Step 4. Determine presence of competition in region

- Identify that a certified alternative provider is present and operating somewhere in the region.
- If the criteria of 75% is satisfied and at least one alternative provider is present, then the group of services is eligible to transition from Framework A to Framework B.

¹ A set of barriers to entry could consist of those defined by the Commission, with the limited modifications noted by NYNEX. However, the barriers to entry listed by the Commission are only applicable to switched services. For special access and trunking, the only barriers to entry that should apply are authority, interconnection/collocation, unbundling and access to poles, conduits and rights of way.

Transition from Framework A to Framework BExample

Step 1. For purposes of this illustration, assume that a demonstration is made that the regulators in both Massachusetts and New York have removed the exogenous barriers to entry, and that NYNEX has removed all internal barriers to entry for, in this example, switched access services.

Step 2. Identify the number access lines in the jurisdictions identified in Step 1 (Massachusetts and New York).

Number of Access Lines* -	Mass.	-	4M
	<u>New York</u>	-	<u>10M</u>
	Total	-	14M

Step 3. Determine the percentage of NYNEX's access lines in the states identified in Step 1 compared to the NYNEX total.

Number of Access Lines -	Step 2	-	14M
	<u>Total NYNEX</u>	-	<u>16M</u>
	% of Total	-	88%

Step 4. Identify that there is a competitive presence for switched access services in the region by identifying that a CLEC, such as MFS, TCG, etc., is operating in the region.

* The number of access lines can be obtained from the Annual Access Filings or ARMIS reports which report residence & SL business, ML business & Centrex and lifeline access lines reported in the Common Line Services Basket.

Procedure for Making a Competitive Showing
to Transition from Framework A to B or C

Transition from Framework A or B to Framework C

Step 1. Insure that Barriers to Entry have been removed in all of the LEC's jurisdictions

(Note that barriers to entry are different for special access/trunking and switched access services.)

Step 2. Determine the market areas with a competitive presence

- The competitive areas for this showing will generally consist of groupings of centers. These wire centers will, in most instances, be contiguous, but this is not a requirement. A wire center will be classified as "competitive" if a competitor has;
 - collocated facilities in the wire center,
 - network facilities within the area served by the wire center, or
 - announced either that it offers service in the area, or plans to offer service in the area served by the wire center.
- These competitive areas can be identified by market research, proposed FCC reports, state tariffs, industry tariffs and information (e.g., NECA Tariff 4 or the LERG) as well as LEC data regarding the competitor's collocated facilities.

Step 3. For switched access, determine the number of business access lines in the competitive areas identified in Step 2

- (For special access/trunking, determine the revenues earned for these services in the wire centers that make up the competitive areas.)
- The LEC will have to obtain this data by wire center from its own databases.

Step 4. Determine the percentage for criteria

- Calculate the percentage of business access lines in competitive areas compared to the total in the region, or service area.
- Divide the number calculated in Step 3 by the total number of business access lines. The total number of business access lines can be obtained from the annual access tariff filing, from ARMIS 43-01 reports, or other similar reports.
- If the criteria of 50% is satisfied, then the service group is eligible to transition to Framework C.

Transition from Framework A or B to Framework CExample

- Step 1. For purposes of this illustration, assume that LATA 132 (New York metro area) and LATA 128 (the Boston metro area) have a significant competitive presence throughout the geographic area and that NYNEX has demonstrated that barriers to entry have been removed throughout the region it serves (i.e. all states).
- Step 2. Within these areas, identify which wire centers can be categorized as "competitive" based on the definition in Step 2. That is, a wire center is "competitive" if there is operational collocation in it, if there are network facilities of an alternate provider in the wire center area, or if an alternative provider has announced plans to offer service in the area served by the wire center.
- Step 3. Identify the number business access lines in the "competitive" wire centers identified in Step 2.

LATA 128	Total business access lines in competitive wire centers:	0.8M*
<u>LATA 132</u>	<u>Total business access lines in competitive wire centers:</u>	<u>2.2M</u>
	Total	- 3.0M

- Step 3. Calculate the percentage of NYNEX's business access lines in the "competitive" wire centers identified in Step 2 compared to the total business access lines in the NYNEX region.

Number of business access lines from Step 2:	3.0M
<u>Total NYNEX region business access lines:</u>	<u>5.6M</u>
% of Total	54%

* The business access lines included in this example are only for illustrative purposes. They would include SL business, ML business & Centrex access lines.

Procedure for Making a Competitive Showing
Transition from Phase 1 to Phase 2 -- Streamlined Regulation

Transition from Phase 1 to Phase 2 -- Streamlined Regulation

Step 1. Identify the relevant service and geographic market areas for which the competitive showing is to be made

- The competitive market area to be considered must be open to competitive entry. In this regard, only specific barriers to entry applicable to the services for which a showing is to be made must be removed for the market to be considered open to competitive entry.¹
- The competitive market area for this showing will generally consist of groupings of wire centers. These wire centers need not be contiguous, and the market area for the showing could be as large as an MSA or a LATA. The group of wire centers may consist of some wire centers with no current competitive presence in the geographic area it serves, but the grouping represents a realistic and relevant area in which competition is expected to focus.
 - A wire center will be classified as competitive if a competitor has;
 - collocated facilities in the wire center,
 - its own network facilities within the geographic area served by the wire center, or
 - announced it offers service in the area or plans to offer service in the area served by the wire center.
 - These competitive areas can be identified by market research, proposed FCC reports, state tariffs, industry tariffs and information (e.g., NECA Tariff 4 or the LERG) and LEC information regarding the competitor's collocated facilities.

¹. See note 1, p. 1.

Step 2. Determine the demand for the competitors' services in the relevant market area identified in Step 1

- This information will have to be obtained for each geographic area and each service from; proposed FCC competitive assessment reports, market research, and other data regarding the competitor's collocated facilities.
- Demand can be measured in terms of revenues, lines, minutes, or other measures.

Step 3. Determine the LEC's current demand for the competitive services in the relevant market area identified in Step 1

- This information must be obtained by wire center and will have to be obtained from the LEC's databases. It will be the sum of the demand in all of the wire centers included in the competitive showing.
- Demand can be measured in terms of revenues, lines, minutes, or other measures.

Step 4. Calculate the demand responsiveness for the competitive services

- Divide the demand calculated in Step 2 by the LEC demand calculated in Step 3.
- If the threshold criteria of 15% is met, then the relevant service and market area identified in Step 1 is eligible to transition from Phase 1 to Phase 2, streamlined regulation.

Transition from Phase 1 -- Baseline, Framework A, B or C to Phase 2 -- StreamlinedExample

Step 1. For purposes of this illustration, the competitive services and market area have been determined to be HiCap services offered in the Syracuse MSA (see attachment). Competitors have been shown to offer these services in certain areas of metropolitan Syracuse. The barriers to entry for HiCap services in this geographic area have obviously been removed and competitors are present.

Step 2. Market research, NYNEX collocation data and FCC data reports provide demand figures for competitors offering these services in this area.

Number of Circuits -	10 DS3s
	<u>350 DS1s</u>
DS 1 Equivalents	630

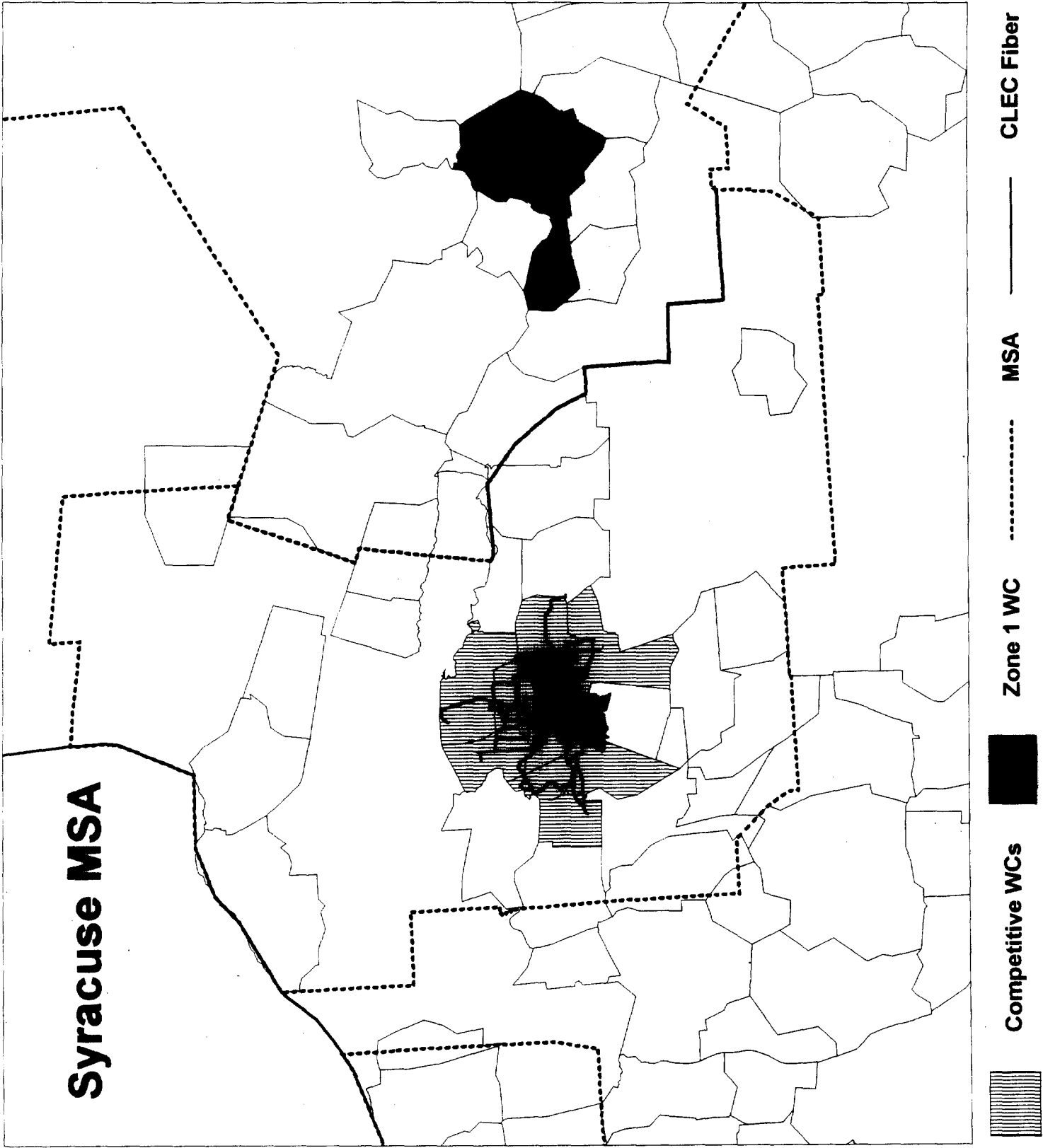
Step 3. Calculate NYNEX demand for these services in this area.

Number of Circuits -	100 DS3s
	<u>1,000 DS1s</u>
DS 1 Equivalents	3,800

Step 4. Calculate demand responsiveness. Divide alternative providers' demand from Step 2, by NYNEX demand from Step 3.

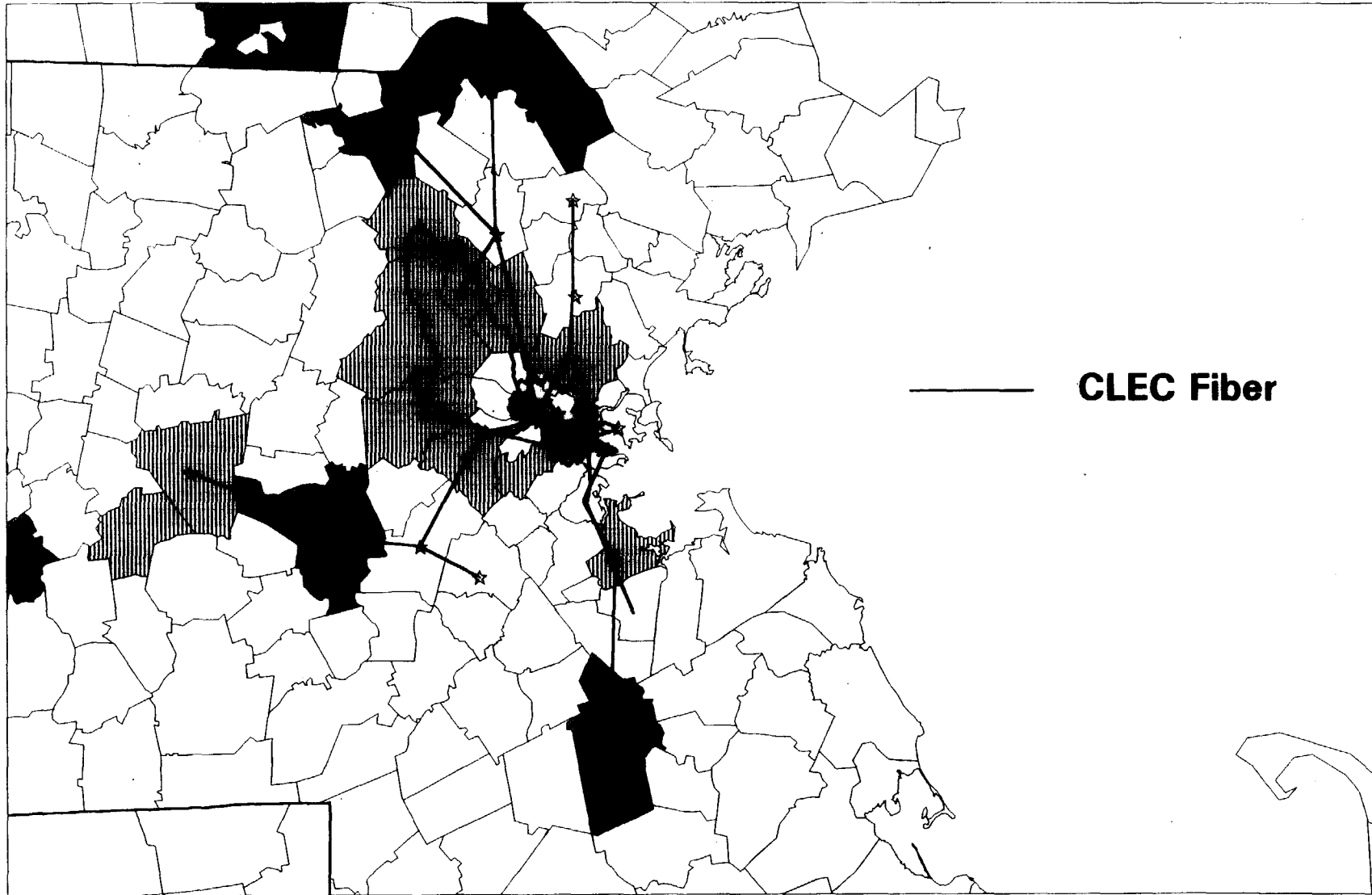
Alternate provider circuits -	630 DS1 equivalents
NYNEX circuits	<u>3,800 DS1 equivalents</u>
Demand Responsiveness	17%

Because the demand response from the alternative provider in the relevant market area exceeds the 15% threshold, the group of services transitions to Phase 2, Streamlined Regulation. Such a showing could be made for a larger group of services; for example, all Special Access, or the Trunking basket.



NYNEX ZONE DENSITY PRICING AREAS

EASTERN MASSACHUSETTS AREA (LATA 128)



 **ZONE 1**

 **ZONE 2**

 **ZONE 3**